

STATE OF COLORADO

**DEPARTMENT OF PERSONNEL & ADMINISTRATION
DIVISION OF FINANCE AND PROCUREMENT
OFFICE OF THE STATE CONTROLLER**

1525 Sherman Street, Suite 250
Denver, Colorado 80203
Phone (303) 866-3281
FAX (303) 866-4233



Bill Owens
Governor

Troy A. Eid.
Executive Director

Arthur L. Bamhart
State Controller

May 7, 2002

The Honorable Bill Owens
Governor
136 State Capitol Building
Denver, Colorado 80203

Dear Governor Owens:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the nine-month period ended March 31, 2002. This Quarterly Financial Report summarizes activity in the General Fund and the Capital Construction Fund.

The attached Exhibit A provides a *Balance Sheet* for the Unrestricted General Fund and Capital Construction Fund at March 31, 2002. Several factors that contribute to the \$1,006.7 million deficit total fund equity are discussed in Exhibit B below. When four percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$1,234.0 million. However, the current deficit would be greater by \$386.1 million if not for transfers from the Controlled Maintenance Trust Fund and various cash funds. This compares to the unreserved fund balance deficit of \$762.2 million at March 31, 2001. The deficit occurs primarily because HB98-1414 (CRS 24-75-201) made excess TABOR revenues available for appropriation in each year they were collected rather than reserving those funds until they were refunded in the following year. As a result, prior year TABOR refunds are paid out of current year revenues. The lack of excess TABOR revenues in the current year means those funds are not available to pay the TABOR refund liability from the prior year.

The General Fund deficit is also significant because the fund has cash flow problems. The \$683.1 million Liability to Pooled Cash, which represents a cash deficit, is in addition to the State Treasurer's borrowing of \$750.0 million, which must be repaid, along with accrued interest, by June 27, 2002. The state is increasingly dependent on future collections to repay this short-term borrowing and to pay other existing liabilities. At this time it is not known to what extent the April tax receipts will mitigate this problem; however, the Department of Treasury anticipates a General Fund cash deficit at year end. As of the end of the third fiscal quarter, no interest-earning cash fund has been denied its interest earnings because of the deficit cash balance in the General Fund.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the nine-month period ended March 31, 2002. The Current Estimate/Budget column reflects the most recent OSPB estimate of revenues on the modified accrual basis for the fiscal year and appropriations and transfers currently in law. The estimate column shows a need to reduce expenditures at June 30, 2002, by \$312.6 million. However, the \$312.6 million does not reflect the \$19.9 million revenue shortfall reported on the March Year-to-Date Revenue Summary Report.

Several bills currently before the Legislature provide a plan to address this shortfall. The plan includes reducing the statutory four percent reserve to one percent, additional transfers from various cash funds and the capital construction fund, and additional negative supplemental appropriations. In addition, your office has required further appropriation restrictions. Assuming that the plan becomes law, current revenue projections are met or exceeded, and overexpenditures are not significant, the plan will result in a positive General Fund Unreserved Fund Balance. The plan depends on year end transfers (between June 20 and June 30) from the Unclaimed Property Fund and the Tobacco Litigation Settlement Trust Fund, which can only be made at your written direction. The final unaudited amounts of revenues and expenditures will not be known until August 5; and therefore, the year end transfers, if needed, will have to be made based on estimates.

If the plan becomes law, it designates several large cash fund balances as the TABOR Emergency Reserve. I believe this adequately provides for the required Emergency Reserve.

At the end of the second quarter, actual general-purpose revenues and transfers-in were \$4,603.7 million, which is 71.5 percent of the annual estimate. Expenditures of the General Fund through the second quarter were 87.2 percent of current appropriations. This compares with the prior year figure of 86.2 percent of appropriations at March 31, 2001. Individual spending patterns above 75 percent for the third quarter are primarily caused by legal requirements to make transfers or expenditures early in the year. Examples include:

- The Department of Education's requirement to transfer twelve months of public school moneys totaling \$2,088.5 million to the State Public School Fund by the end of the third quarter,
- Recording the \$927.2 million Fiscal Year 2000-01 TABOR excess revenues to be refunded in Fiscal Year 2001-02.

Exhibit C is a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - Regular Capital Construction Fund - Budget and Actual* for the nine-month period ended March 31, 2002. Expenditures of the Capital Construction Fund are expected to be less than outstanding appropriations because of the multi-year nature of the appropriations compared to current fiscal year expenditures. This timing difference between the revenues and expenditures, inherent in the multi-

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year appropriations process, causes a large variance between the estimated and the actual fund balance.

Based on review of the attached financial reports and agency comments, I have presented the financial issues that I believe are significant to the state. Questions concerning this report should be directed to my office.

Sincerely yours,

A handwritten signature in black ink that reads "Arthur L. Barnhart". The signature is written in a cursive style with a large, stylized "A" and "B".

Arthur L. Barnhart
State Controller

Attachments

Cc: Troy A. Eid, DOP/DPA
Nancy McCallin, OSPB
Kenneth Conahan, JBC

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
MARCH 31, 2002

(DOLLARS IN THOUSANDS)	UNRESTRICTED	
	GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Cash Equivalents	\$ -	\$ 279,630
Taxes Receivable, net	869,014	-
Other Receivables, net	76,930	108
Intrafund Receivables	14,386	4,298
Due From Other Governments	417,146	12,135
Due From Other Funds	395	1,251
Inventories	14,310	-
Prepays, Advances, and Deferred Charges	58,098	3,890
Investments	233,435	-
Other Long-Term Assets	445	187
TOTAL ASSETS	\$ 1,684,159	\$ 301,513
LIABILITIES:		
Liability to Pooled Cash	\$ 683,093	\$ -
Tax Refunds Payable	378,042	-
Accounts Payable and Accrued Liabilities	296,536	22,662
TABOR Refund Fiscal Year 2000-01	469,151	-
Due To Other Governments	29,700	-
Due To Other Funds	10,575	1,182
Intrafund Payables	5,638	1,759
Deferred Revenue	58,615	2,506
Other Current Liabilities	758,905	-
Deposits Held in Custody for Others	402	-
Other Long-Term Liabilities	204	-
TOTAL LIABILITIES	2,690,861	28,109
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	160,698
Other Specific Purposes		2,801
Long-Term Assets and Loans Receivable	445	187
Statutory Reserve	226,900	-
Unreserved:		
Designated	-	109,718
Undesignated	(1,234,047)	-
TOTAL FUND EQUITY	(1,006,702)	273,404
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,684,159	\$ 301,513

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2002**

(DOLLARS IN THOUSANDS)	CURRENT ESTIMATE/ BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$ 1,855,400	\$ 1,361,515	
Other Excise Taxes	98,400	72,674	
Individual Income Tax, net	3,304,600	2,178,938	
Corporate Income Tax, net	170,700	102,835	
Estate Tax	77,700	63,896	
Insurance Tax	144,500	119,661	
Parimutuel, Courts, and Other	62,400	43,084	
Interest Earnings	29,500	17,853	
Gaming	33,300	-	
Medicaid Transfer	11,200	349	
Transfer from Various Cash Funds	137,800	132,635	
Transfer from Controlled Maintenance Trust	253,500	253,463	
Transfer Back from Capital Construction	256,768	256,768	
TOTAL GENERAL PURPOSE REVENUES	6,435,768	4,603,671	71.5%
EXPENDITURES:			
Agriculture	10,274	8,025	
Corrections	449,810	334,823	
Education	2,269,346	2,245,783	
Governor	20,103	16,109	
Health Care Policy and Financing	1,046,452	790,955	
Higher Education	752,645	546,459	
Human Services	497,486	380,556	
Judicial Branch	214,112	158,009	
Law	9,970	6,801	
Legislative Branch	29,676	19,561	
Local Affairs	10,447	8,567	
Military Affairs	4,050	2,964	
Natural Resources	24,656	21,616	
Personnel and Administration	14,161	10,875	
Public Health and Environment	32,662	25,550	
Public Safety	57,922	42,892	
Regulatory Agencies	1,915	1,484	
Revenue	176,956	141,053	
Treasury	65,789	30,282	
Fiscal Year 2000-01 TABOR Refund	927,201	927,201	
Appropriation to the Highway Users Tax Fund	35,179	35,179	
Appropriation to Capital Construction Fund	83,188	83,188	
Original Transfer to the Capital Construction Fund	256,768	256,768	
TOTAL GENERAL FUNDED EXPENDITURES	6,990,768	6,094,700	87.2%
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	(555,000)	(1,491,029)	
EXCESS AUGMENTING REVENUES	-	14,705	
BEGINNING UNRESERVED FUND BALANCE	255,600	255,592	
Add Budgeted Non-GAAP Expenditures	-	1	
Deduct the GAAP Expenditures Not Budgeted	-	(2,754)	
Add GAAP Revenue Adjustments	-	2,701	
(Additions) Deductions to the Long-Term Loan Reserve	-	(34)	
(Additions) Deductions to the Statutory 4 Percent Reserve	(13,200)	(13,232)	
Adjustments for Consumable Inventory Fund	-	3	
ENDING UNRESERVED FUND BALANCE	\$ (312,600)	\$ (1,234,047)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2002**

(DOLLARS IN THOUSANDS)	CURRENT ESTIMATE/ BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 256,768	\$ 256,768	
General Fund Appropriation	83,188	83,188	
Interest Earnings	17,900	17,497	
TOTAL CAPITAL CONSTRUCTION REVENUES	357,856	357,453	99.9%
EXPENDITURES:			
Agriculture	6,316	1,986	
Corrections	33,393	14,082	
Education	5,595	2,653	
Governor	2,727	1,438	
Health Care Policy and Financing	7,743	1,337	
Higher Education	247,619	106,202	
Human Services	36,647	19,136	
Judicial Branch	1,833	295	
Law	97	42	
Local Affairs	1,809	1,312	
Military Affairs	2,929	780	
Natural Resources	473	473	
Personnel	47,606	17,812	
Public Health and Environment	11,221	916	
Public Safety	13,007	5,614	
Revenue	2,661	1,586	
Transportation	33,834	24,953	
Interest Earnings Transferred to General Fund	17,497	17,497	
Transfer Back to General Fund	256,768	256,768	
Intrafund Transfer-Out	4,620	4,620	
NET EXPENDITURES AND AUGMENTING REVENUES	734,395	479,502	65.3%
EXCESS GENERAL REVENUES OVER (UNDER)			
NET CAPITAL CONSTRUCTION EXPENDITURES	(376,539)	(122,049)	
EXCESS AUGMENTING REVENUES			
	-	14,632	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS			
	239,029	239,029	
(Additions) Deductions to Reserve for Encumbrances	138,804	(21,894)	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 1,294	\$ 109,718	